



Patrick W. Henning, Director
April 20, 2009
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Arnold Schwarzenegger
Governor

Ms. Rhonda Simmons, Executive Director
Mayor's Office of Economic Workforce Development
1 Dr. Carlton B. Goodlet Place
City Hall, Room 448
San Francisco, CA 94102

Dear Ms. Simmons:

**WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2007-08**

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the Mayor's Office of Economic and Workforce Development (MOEWD) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Mr. David Hinojosa from June 2, 2008, through June 6, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by MOEWD with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of MOEWD, a review of applicable policies and procedures, and a review of documentation retained by MOEWD for a sample of expenditures and procurements for PY 2007-08.

Because MOEWD did not respond to the draft monitoring report, we are releasing it as the final report. Therefore, findings 1, 2, 3, and 4 remain unresolved and are assigned Corrective Action Tracking System (CATS) numbers 80225, 80226, 80227, and 80228, respectively.

BACKGROUND

The MOEWD was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, under WIA subgrant agreement R865484, MOEWD was allocated: \$1,987,103 to serve 388 adult participants; \$1,823,123 to serve 461 youth participants; and \$1,955,664 to serve 175 dislocated worker participants.

For the quarter ending March 31, 2008, MOEWD reported the following expenditures and enrollments for its WIA programs: \$784,168 to serve 358 adult participants; \$565,270 to serve 277 youth participants; and \$494,905 to serve 286 dislocated worker participants.

Additional funds expended under WIA subgrant R760348 for the period July 1, 2007 through March 31, 2008 were as follows: \$496,102 to serve adult participants; \$309,031 to serve youth participants; and \$429,172 to serve dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, MOEWD is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following areas: accruals and audits. The findings that we identified in these areas and our recommendations are specified below.

FINDING 1

Requirement: 20 CFR 667.300(c)(3) states, in part, that reported expenditures must be on the accrual basis of accounting. If a recipient's accounting records are not normally kept on an accrual basis of accounting, the recipient must develop accrual information through an analysis of the documentation on hand.

20 CFR 667.300(a) states, in part, that required reports must be submitted no more frequently than quarterly within a time period specified in the reporting instructions.

WIAD06-4 states, in part, that all WIA grant recipients are required to report expenditures on an accrual basis and must submit quarterly expenditure reports on a cumulative basis.

Observation: We reviewed MOEWD's Adult, Youth, and Dislocated Worker program expenditure reports for the period ending March 31, 2008, and noted that MOEWD did not report on an accrual basis. The MOEWD provided a summary sheet showing the accrued costs for its subrecipients, but this information is not included in MOEWD's expenditure reports to the State.

Recommendation: We recommended MOEWD provide CRD documentation showing that administrative and program accruals, including subrecipient accruals, have been reported in its quarterly expenditure report to the State. In addition, we recommended that MOEWD provide CRD with a Corrective Action Plan (CAP) to explain how it will ensure, in the future, that it reports all accruals on a quarterly basis, as required by WIA.

MOEWD Response: The MOEWD did not respond to the draft monitoring report.

State Conclusion: Because MOEWD did not respond to our draft monitoring report, we cannot resolve this issue. We will consider resolving this issue when MOEWD submits to CRD the documentation requested above. Until then, this issue remains open and has been assigned CATS number 80225.

FINDING 2

Requirement: 29 CFR 97.26(a) states, in part, that grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 (31 U.S.C. 7501–7507) and revised OMB Circular A–133, "Audits of States, Local Governments, and Non-Profit Organizations." The audits shall be made by an independent auditor in accordance with generally accepted government auditing standards covering financial audits.

OMB Circular A-133, Subpart B, Section 200 states, in part, that Non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year. Further, Subpart B, Section .235 (c)(1) states, in part, that the audit report shall be submitted within the

earlier of 30 days after receipt, or nine months after the end of the audit period. Additionally, Subpart D, Section 400 (d)(4) states, in part, that pass-through entities must ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Observation:

We observed that MOEWD did not obtain single audits from its subrecipients. Although MOEWD has been successful in obtaining audits for fourteen other subrecipients, they have not obtained the single audits for Asian Neighborhood Design (AND) and Mission Language Vocational School (MLVS) for the year ending June 30, 2007 and due by March 31, 2008, nine months after the audit period.

The MOEWD provided an email sent by AND to MOEWD dated June 6, 2008, stating that the audit for AND is late due to administration changes and is expected to be completed in mid-September. The MOEWD states they sent letters to both AND and MLVS and MLVS is uncertain when their audit will be completed.

Subsequent to the review, on November 18, 2008, MOEWD provided documentation that the MLVS audit was conducted on August 20, 2008. In addition, MOEWD provided documentation that Regalia and Associates is conducting the AND audit scheduled to be completed by the end of December 2008 and issuance of financial statements is expected by early 2009.

Recommendation: Because MOEWD provided documentation of the completion of the audit for MLVS, we considered this part of the issue closed. However, we recommended that MOEWD continue in its efforts to obtain the audit from AND and provide a copy of this audit when it is received.

MOEWD Response: The MOEWD did not respond to the draft monitoring report.

State Conclusion: Because MOEWD did not respond to our draft monitoring report, we cannot resolve this issue. We will consider resolving this issue when MOEWD submits to CRD the documentation requested above. Until then, this issue remains open and has been assigned CATS number 80226.

PROCUREMENT REVIEW RESULTS

While we concluded that, overall, MOEWD is meeting applicable WIA requirements concerning procurement, we noted instances of noncompliance in the following areas: contract provisions and cost/price analysis. The findings that we identified in these areas and our recommendations are specified below.

FINDING 3

Requirement: 29 CFR Section 97.36(i)(3) states, in part, that contracts must include provisions such as compliance with Executive Order (E.O.) 11246 of September 24, 1965, entitled "Equal Employment Opportunity (EEO)," as amended by E.O. 11375 of October 13, 1967, and supplemented by the requirements of 41 CFR Part 60.

29 CFR Section 97.36(i) (12) states, in part, that contracts must include compliance with all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act (42 U.S.C. 1857(h)), section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000)

Observation: We found that MOEWD's subrecipient contracts do not contain the above contract provisions. Specifically, we reviewed the contracts for Self Help for the Elderly for \$250,000 and Arriba Juntos for \$250,000 which did not contain the required EEO or Clean Air/Clean Water Act Provisions.

Recommendation: We recommended that MOEWD submit a CAP to CRD stating how it will ensure that future contracts include the above contract provisions.

MOEWD Response: The MOEWD did not respond to the draft monitoring report.

State Conclusion: Because MOEWD did not respond to our draft monitoring report, we cannot resolve this issue. We will consider resolving this issue when MOEWD submits to CRD the documentation requested above. Until then, this issue remains open and has been assigned CATS number 80227.

FINDING 4

Requirement: 29 CFR 97.36(d)(4)(ii) states, in part, that procurement through noncompetitive proposals require cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits.

Observation: We found that no cost analysis was completed for MOEWD's sole source procurements of two consultants. They stated that it relied on the (now dissolved) San Francisco Private Industry Council's (SFPIC) previous procurement of these consultants and therefore did not follow its own procurement procedures.

We also noted this issue was identified as Finding number five in our PY 2006-07 Fiscal and Procurement monitoring report sent to MOEWD on November 9, 2007. We found that no cost/price analysis was completed for five sole source procurements for consultants to work on the dissolution of SFPIC. We recommended that all future procurements contain a cost/price analysis. In its response, dated December 14, 2007, MOEWD stated that all future WIA procurements will be conducted in accordance with the MOEWD Procurement Manual, which states, in part, that a cost analysis will be performed and documented on every cost reimbursement procurement.

Based on our review of its PY 2007-08 procurement for consultants, it appears that MOEWD failed to carry out its CAP to ensure that a cost/price analysis would be conducted for sole source procurements.

Recommendation: We recommended that MOEWD provide a cost/price analysis for the consultants procured as a sole source. In addition, we recommended that MOEWD provide a CAP stating how it will ensure that it will follow its own procurement procedures to conduct a cost/price analysis for all sole source procurements. We recommended MOEWD provide the above documentation and CAP to CRD.

MOEWD Response: The MOEWD did not respond to the draft monitoring report.

State Conclusion: Because MOEWD did not respond to our draft monitoring report, we cannot resolve this issue. We will consider resolving this

issue when MOEWD submits to CRD the documentation requested above. Until then, this issue remains open and has been assigned CATS number 80228.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than May 18, 2009. Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Division
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is MOEWD's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain MOEWD's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Mechelle Hayes at (916) 654-7005 or Mr. David Hinojosa at (916) 653-4322.

Sincerely,



JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: Jose Luis Marquez, MIC 50
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